

# Part I

## Context

COPYRIGHTED MATERIAL  
<http://www.pbookshop.com>

## **CHAPTER OUTLINE**

**A Brief History of Management**

**Defining Management and Leadership**

**The Definition, and the Power, of Engagement**

<http://www.pbookshop.com>

# 1

## Do Managers Matter?

**O**ne author (Tom) was fortunate enough to spend part of the summer of 2009 in France observing 65th-anniversary commemorations of the 1944 Allied liberation. Story after story of the D-Day invasion recounted the bravery, resourcefulness, and foresight displayed by Army leaders—not generals, colonels, or majors, but corporals and sergeants.

They performed well in part because they adhered to Army values (including loyalty, honor, and personal courage). But their success also came from following the requirements of what the Army leadership manual calls “direct” leadership: As the manual expresses it, “Direct leaders develop their subordinates one-on-one.... They are close enough to the action to determine or address problems. Examples of direct leadership tasks are monitoring and coordinating team efforts, providing clear and concise mission intent, and setting expectations for performance.”<sup>1</sup> The D-Day mission was victorious in large part because noncoms consistently demonstrated the attributes expected of them: character (integrity and devotion to duty); presence (which calls for composure, confidence, and resilience); and intellectual strength (mental agility and sound judgment). It all sounds fairly ordinary until you remember that wavering in any of these means battles are lost and soldiers are wounded or killed.

Like sergeants, a company's first-line managers are the pivot point for strategic success. They too lead one person at a time, developing each subordinate and making sure everyone is capable of executing the organization's mission. They too must show empathy, build resilience, and be creative. Tom's nephew (who is a master sergeant with the New Mexico National Guard) puts it this way: "My boss is a captain. He tells me generally what he needs to get done, and I get it done." He adds, with no small amount of pride, "Sergeants make everything happen." So, we would argue, do first-line managers.

## A Brief History of Management

The Italian word *maneggiare* began to appear in the late Middle Ages in connection with governance of property and business. However, the functions of management as we think of them today didn't emerge with full force until the industrial era. It was then that mass production reduced the importance of the individual worker and increased the emphasis on organizational productivity.

The years following World War II brought prosperity that strengthened, and was strengthened by, the success of commercial enterprises, especially large ones. Writer Robert Samuelson describes post-war America's faith in large commercial, cultural, and political institutions: "Americans increasingly defined their well-being in terms of how well large institutions were performing and how well such institutions were delivering on their explicit or implicit promises. Individual effort and responsibility were diminished and, to some extent, devalued. Institutions were expected to deliver."<sup>2</sup> But even in the early days following World War II, when management became formalized as a craft, confusion existed about what "management" really meant. In his 1954 classic *The Practice of Management*, Peter Drucker offered his definition of a manager's tasks. Managers, he wrote, are "specifically charged with making resources productive, that is, with the responsibility for organized economic advance."<sup>3</sup> But Drucker also pointed out the confusion that

continued to surround the definition of the manager and his job. Except for the gender assumption and the salary figure, he might have been describing the post-millennium world of work when he said, in 1954: “In American business at least [the supervisor’s job] is a hodgepodge—the end product of decades of inconsistency. Everybody knows, or says he knows, what the supervisor should be doing. He is expected to be a clerk shuffling papers and filling out forms. He is to be the master technician or the master craftsman of his group. He is to be an expert on tools and equipment. He is to be a leader of people. Every one of these jobs he is expected to perform to perfection—at four thousand dollars a year.”<sup>4</sup>

Fast-forward to the 1990s, when large organizations found themselves under increasing economic pressure. They had become victims of their own success: too rigid, too unwieldy, and too inflexible to respond to new challenges from an array of sources, including more nimble foreign rivals, accelerating domestic deregulation, and new technologies. At the same time, a kind of hubris had spread through the ranks of American enterprise. It was the legacy of Frederick W. Taylor and Max Weber: the notion that strong executive managers could manage anything. Steadily declining financial performance suggested otherwise. Total pretax profits for all American businesses were about 59 percent higher in the decade of the 1960s than they had been in the 1950s. Economy-wide profits in the 1970s increased even more dramatically, totaling 123 percent of the 1960s total. But the slide began in the 1980s. That decade’s total corporate profits were only 72 percent greater than the total for the prior decade.<sup>5</sup> As profit growth slowed, profit margins declined, slipping from 10.7 percent in the 1970s to 8.7 percent in the 1980s.<sup>6</sup> The management philosophies and techniques that had made companies prosperous after World War II had ultimately failed them. Organizations had to do something as declining profits and increasing corporate debt threatened to erode shareholder value.

And so, in the early 1990s came the era of downsizing. Staffing cost reductions from organizational downsizing hit a peak in 1990–1991.

Some 56 percent of the firms responding to an American Management Association survey said that they had cut their workforces during that period.<sup>7</sup> Although job cuts slowed, the percentage of companies making significant reductions remained in the mid-40s over the next several years. Unskilled or hourly workers felt the brunt of the layoffs, accounting for 45 percent of job losses in 1994.<sup>8</sup>

The experiences of the early and mid-1990s represented a watershed in management thinking. As companies began to recover from the trauma of major staff reductions (unemployment had dropped to 5.6 percent by June 1995, compared with 7.8 percent in the same month of 1992),<sup>9</sup> a new phrase echoed through the halls of corporate America. “Employees are our most important assets” became the sound bite of the day, *de rigueur* for inclusion in annual reports and press releases. On the one hand, some companies tried to live up to the spirit of the phrase. They genuinely challenged traditional ways of building organizational structures, managing work, and fostering learning. Rigid departmental boundaries became permeable as organizations instituted cross-functional teams to get work done. Many tried to increase their focus on quality, realizing that it was possible to produce a high-quality product at a low cost. Japanese companies did it routinely, to the chagrin of manufacturers in Detroit. Self-managed teams were turned loose to find ways to improve product and service quality. In some organizations, it had indeed become the era of the empowered employee-asset.

On the other hand, the phrase often had a hollow ring. In Towers Perrin’s 1995 People Strategy Benchmark Awareness and Attitude Study, the consultants said, “Although 90 percent of the 300 executives interviewed said their employees are the most important variable in their company’s success, they ranked specific people-related issues far below other business priorities.”<sup>10</sup>

As the hierarchical pyramids that had defined organization structure began to break down, many companies took steps to link twin concepts separated at birth: downsizing and delayering. The logic was seductive. It flowed something like this:

- We've downsized to cut costs, but we can reduce our workforce only so far.
- Plus, we need to increase quality at the same time—otherwise the Japanese will kill us.
- So, let's declare that employees aren't really just costs—they're assets that we can empower to find ways of improving quality and reducing expenses.
- And—here's the beauty part—if we have empowered employees (and, of course, inspiring executive leadership), we won't need all those expensive supervisors and managers. We pay them more than we do rank-and-file workers, so laying off a few managers saves as much money as firing lots of employees.

For many organizations, this thinking represented the first bright line between the roles of leaders, who could move the company forward and energize employees, and managers, who were expendable.

The next step was inevitable: take out as many first-line and middle managers as possible. Where feasible, slice whole layers out of the organization. In 1994, cuts in the supervisory ranks of organizations accounted for about 18 percent of total reductions. Middle managers represented 15 percent of the layoffs, despite making up only about 8 percent of the workforce.<sup>11</sup> Into the years beyond 2000, when companies laid off employees, they continued to let go a higher proportion of managers. From 2002 to 2003, as the U.S. economy emerged from recession, total employment rose by a bit less than one percent. Employment in management occupations fell by 0.2 percent during that period.<sup>12</sup>

## Defining Management and Leadership

The reasoning that underlies many downsizing and delayering strategies relies on often unspoken definitions of leadership and management—definitions that are at best imprecise and at worst largely wrong. In

particular, the distinction between *manager*<sup>13</sup> and *leader*, though hardly a new topic among consultants, academics, and business practitioners, has taken on increasing importance. Table 1.1 captures some of the ways organizations have differentiated the two groups, in practice if not in theory.

This comparison suggests why the practice of management has lost cachet and the calling of leadership has gained momentum. One source describes middle management as “a layer of management in an organization whose primary job responsibility is to monitor activities of subordinates while reporting to upper management.”<sup>14</sup> The definition adds this chilling afterthought: “In pre-computer times, middle management would collect information from junior management and reassemble it for senior management. With the advent of inexpensive PCs this function has been taken over by e-business systems. During the 1980s and 1990s thousands of middle managers were laid off for this reason.” How well we remember.

In fact, the content of Table 1.1 barely begins to capture the denigration and disrespect heaped on the manager’s role over the last fifteen years. Organizations (along with academics, consultants, and gurus) have relentlessly elevated leadership at the expense of management. “Decades ago,” says one company culture expert, “a major disservice was done to business when the idea that ... leaders were ‘better’ than managers was introduced. Sadly, that attitude is still in force today.”<sup>15</sup> Leadership, the conventional thinking goes, is more enlightened and nobler—and it pays a lot better too. In the words of one team of experts in leadership competency and development, “There is a romantic attachment to, and a cult of personality about, leaders in Western thought ... the focus on how individual leaders are perceived as opposed to how well their teams perform is consistent with the prevailing individualistic orientation of American psychology.”<sup>16</sup> In a *Harvard Business Review* article in 2003, Jonathan Gosling and Henry Mintzberg wrote, “Nobody aspires to being a good manager anymore; everybody wants to be a great leader.” And then they added a warning note: “But the separation of

**Table 1.1: Differences Between Manager and Leader**

<b>Element</b>	<b>Manager</b>	<b>Leader</b>
<i>Organizational nomenclature</i>	Frequently a title, usually denoting positions at or below the middle of the organizational ladder	Rarely a title—more a reflection of expected motivational technique, often associated with executive positions
<i>Action focus</i>	Directs action by deploying assets, overseeing processes, and running systems. Often described as task-focused. Concentrates on: <ul style="list-style-type: none"> <li>• Planning and budgeting</li> <li>• Organizing and staffing</li> <li>• Coordinating and controlling</li> <li>• Monitoring and problem solving</li> </ul>	Concentrates on giving people a reason to move along a path toward a destination by showing the way and appealing to their personal motives Builds energy toward accomplishment of the goal and removes obstacles to its achievement
<i>Relationship to the enterprise</i>	Works within the existing organizational systems Seeks and then follows direction Executes plans	Defines the organization's high-level systems Provides direction by defining and communicating vision and strategy Devises the plans that get executed
<i>Image within the enterprise</i>	Mundane, pedestrian, necessary, but should be limited	Lofty, important—can't get enough of it

management from leadership is dangerous. Just as management without leadership encourages an uninspired style, which deadens activities, leadership without management encourages a disconnected style, which promotes hubris.”<sup>17</sup> “You don’t manage people, you manage things. You lead people,” said the late Admiral Grace Hopper.<sup>18</sup> Jack Welch, alpha dog in the CEO ranks, barks it out in this way: “Managers slow things down. Leaders spark the business to run smoothly, quickly. Managers talk to one another, write memos to one another. Leaders talk to their employees, talk *with* their employees, filling them with vision”<sup>19</sup> (emphasis in original).

When Jack Welch says that people like you slow things down and waste time, your self-esteem might well take a hit. On the one hand, Welch is simply encouraging everyone who oversees a team to think and act like a leader and not (merely) like a manager. On the other hand, if your title has “manager” in it, and your job is so overloaded that you spend most of your time reading and writing memos, does that automatically make you ineffective and incompetent? What if you would like to follow Jack’s advice to talk *with* employees and be visionary, but you’re too busy going to meetings, filling in budget templates, and producing . . . whatever? And, moreover, what if it’s executives at or near Jack’s level who have allowed—or required—your job to become almost unmanageably complex?

But let’s pause for a moment and examine our terminology more closely. What do “leader” and “manager” really mean to the functioning of an organization? Table 1.1 makes clear that the terms denote different actions and different outcomes—but what actions and what outcomes? If we extrapolate a bit from what Admiral Hopper said—that managers focus principally on assets, and leaders concentrate on people—we can clarify both definitions. Leadership, we submit, entails:

- Envisioning an improved situation (for instance, achieving an organizational goal, changing strategic direction, emerging from a crisis)
- Determining the best path for reaching that desirable end

- Inspiring in others the self-motivation to reach the appealing state (that is, creating the conditions under which people feel the intrinsic motivation to move ahead)
- Boosting energy (by recognizing success, for example), removing obstacles that impede progress (political constraints, for instance), and demonstrating resilience (remaining steadfast in spite of failures), so that people can make speedy and efficient strides toward the goal

A leader is like the captain of a fifteenth-century Portuguese ship sailing out of sight of land for the first time in search of gold, silver, and spices. The captain envisions the destination, plots the course (with the help of a skilled navigator, of course), and engenders courage among the sailors (“Don’t worry men, I’m pretty sure we won’t sail off the edge of the earth”). Of course, the mission will fail if the boat springs a leak, the sails become shredded, or the food goes rotten. Seeing to the soundness of those assets is the responsibility of a manager. With all this in mind, we suggest that managing consists of:

- Acquiring, deploying, building, preserving, and exploiting assets (tangible ones like forklifts, financial ones like investment dollars, and intangible ones like brand equity)
- Overseeing processes and implementing systems for putting those assets to use
- Monitoring results and making adjustments

Without leadership, people lack the vision and courage to set sail and discover the New World. Without management, the boat sinks before it gets there.

Leadership and management do not lie on the same definitional spectrum. In particular, it is wrong to imply that management sits at the mundane, quotidian end of a continuum on which leadership, elevated and inspiring, occupies the other end. They represent two different disciplines, each critical for business success. They do not compete with each other, nor are they in opposition. In the quest for

clear nomenclature, it doesn't help that most people called "manager" are expected both to lead and to manage (hence the hodgepodge job to which Drucker refers, and that still exists). We occasionally see the phrase "managerial leadership," a term meant to connote an executive style that concentrates on maintaining stability, preserving the existing order, and taking care of short-term business. Some business philosophers contrast managerial leadership with loftier forms like visionary or strategic leadership.<sup>20</sup> By our definition, "managerial leadership" is a contradiction, like "doggish cats." The terms refer to different species.

We can further clarify our terms by considering leadership along the same two dimensions: organizational scale and quality of performance. Exhibit 1.1 illustrates the two dimensions and provides examples.

It is dangerous to set up any single executive as a paradigm of enterprise-level leadership, given the frequency with which so many have been disgraced and replaced. As with any complex human behavior, the performance of executives, including CEOs, tends to vary. Nevertheless, we can identify a set of attributes that consistently characterize successful

**Exhibit 1.1: Dimensions of Leadership**

<b>Scale of Leadership</b>	<b>Large (Enterprise)</b>	Celebrity CEO who drives only for shareholder value and won't listen to bad news	Publicity-shunning CEO who encourages dissent, learns from mistakes, and knows that employee performance and customer satisfaction create shareholder wealth
	<b>Small (Unit)</b>	Accounts receivable manager who focuses only on the numbers and not on the people	Accounts receivable manager who engages each individual to help achieve the unit's goals for reducing problem accounts
		<b>Low</b>	<b>High</b>
<b>Quality of Leadership Performance</b>			

leaders of large-scale organizations. They inspire goal-oriented action among followers by virtue of their focus on, and dedication to, organizational success, though not necessarily through personal charisma. For example, former Colgate-Palmolive CEO Reuben Mark was known for his down-to-earth approach to leadership. He traveled coach class on overseas flights, disdained the common executive obsession with golf, and avoided publicity. As one acquaintance said, he wanted the company, not himself, to be the superstar.<sup>21</sup>

In searching for the best way to achieve organizational goals, the most effective top-level leaders tolerate, indeed encourage, healthy dissent. They don't limit the information they receive to good news only. Roger Enrico instilled this kind of free information flow down the line at PepsiCo, observers say. They foster meritocracy within their organizations, in service of a commitment to organizational achievement. They are also aware of their own limitations and therefore ensure that others around them have compensating strengths. Cisco's John Chambers is known for this sort of intellectual honesty. Faced with obstacles, high-performing executive leaders bolster judgment with analysis and balance deliberation with action. They also learn from their mistakes, as Yum! Brands CEO David Novak did from a marketing debacle that occurred when he was marketing chief at PepsiCo. Pepsi introduced Crystal Pepsi, a drink that looked like rival 7UP but failed dramatically. Novak later said that he had learned to weigh the testimony of naysayers (the Pepsi bottlers who had told him the new drink tasted nothing like Pepsi) despite a natural inclination to ignore them.<sup>22</sup>

We would add that the best executive leaders make shareholder value a derivative priority, one that follows a focus on employees and customers. Roger Martin, dean of the Rotman School of Management at the University of Toronto, says that concentrating primarily on creating shareholder wealth is ultimately a loser's game. The reason: the only sure way to increase shareholder value is to raise the markets' expectations about the organization's future results. "Unfortunately," Martin says, "executives simply can't do that indefinitely. . . . Talented executives

can grow market share and sales, increase margins, and use capital more efficiently, but no matter how good they are, they can't increase shareholder value if expectations get out of line with reality."<sup>23</sup>

We advocate that, instead of training her gaze directly on shareholder returns, a high-performing executive leader should pay attention to the performance of employees and the linkage of employee performance with customer satisfaction and purchase behavior. Companies like Marriott, Southwest Airlines, and Starbucks all follow this creed. "Take great care of your employees and they will take great care of your customers," says Marriott executive vice president Mike Jannini.<sup>24</sup> In the prologue to his book *Pour Your Heart into It*, Starbucks chairman and CEO Howard Schultz says, "A company that is managed only for the benefit of shareholders treats its employees as a line item, a cost to be contained. Executives who cut jobs aggressively are often rewarded with a temporary run-up in their stock price. But in the long run, they are not only undermining morale but sacrificing the innovation, the entrepreneurial spirit, and the heartfelt commitment of the very people who could elevate the company to greater heights."<sup>25</sup> In describing how the company created its brand, Schultz says, "We built the Starbucks brand first with our people, not with consumers—the opposite approach from that of the crackers-and-cereal companies. Because we believed the best way to meet and exceed the expectations of customers was to hire and train great people, we invested in employees who were zealous about good coffee.... That's the secret of the power of the Starbucks brand: the personal attachment our partners feel and the connection they make with our customers."<sup>26</sup>

Leadership enacted on a smaller scale—in an individual unit or department—both resembles and differs from executive leadership. On the one hand, first-line leaders should display the same humility, tolerance for contradictory information, and focus on employee contribution displayed by competent executives. On the other hand, clearly, they perform their roles on a smaller stage. In the words of management expert Marcus Buckingham, great senior executives (that is, leaders who

do their jobs at the business or enterprise level) “discover what is universal and capitalize on it. Their job is to rally people toward a better future. Leaders can succeed in this only when they can ... tap into those very few needs we all share.” He contrasts this with the form of leadership exercised by someone who probably has the word “manager” in her title but who has a more circumscribed span of responsibility. This leader’s challenge, he says, is to “turn one person’s particular talent into performance. Managers will succeed only when they can identify and deploy the differences among people, challenging each employee to excel in his or her own way.”<sup>27</sup>

In other words, leadership at the unit head level comprises the same components as leadership at the top of the corporation: envisioning a goal, plotting a path to achieve it, engendering motivation to get there, clearing obstacles, and providing boosts along the way. But unit-level leadership simply focuses on a few people, one person at a time, rather than on many people who share a few common aspirations. A skilled leader who is also the head of accounts receivable will, for example, help each employee find a reason and a way to contribute to the department’s goal (reducing problem accounts, perhaps). For each person, the stimulus may be different. It’s the leader’s job to discover those individual motivations and activate them.

Clear enough, but a gray area remains. It involves the human asset, something that is intangible and highly personalized. Assets are inert elements of the production equation, valuable only when someone manipulates (or manages) them. Employees aren’t assets the way forklifts, land, and bond holdings are. Organizations do not own people (not legally, anyway), do not control them, and do not directly reflect their value on the balance sheet. Management professor Henry Mintzberg has strong opinions on the degradation implied by putting employees into the same classification as an organization’s tangible and financial resources: “Viewing them as resources is deadly. It turns them into robots. And you can’t possibly get them enthusiastic about their jobs when you’re treating them that way. It’s not coincidental that the rise

of the term *human resources* coincided with a wave of downsizing”<sup>28</sup> (italics in original).

So if employees aren't assets, what are they? Our answer: they are the *owners* of an asset, the asset that economists call human capital.<sup>29</sup> Human capital comprises the knowledge, skills, talents, and behaviors of workers. It catalyzes all other assets. A fundamental goal of managers, therefore, is to help employees build it and to evoke its investment, in support of a big-picture strategy or a specific tactic. A rational employee will make this investment only if it yields a payoff—in effect, a return on human capital investment. As capitalists of the true human asset, workers decide when they will invest, how they will invest, and how much they will invest. The desired return on investment takes a variety of forms, both financial (pay, benefits, stock options) and nonfinancial (intrinsically fulfilling work, learning and advancement opportunities, recognition for contribution). Organizations have many ways to generate ROI on human capital contributed. The manager plays a critical part in the creation and delivery of many of those elements. A leader-cum-manager must show each individual how his or her contribution of human capital will not only help to achieve an organizational goal but also to produce a personal ROI.

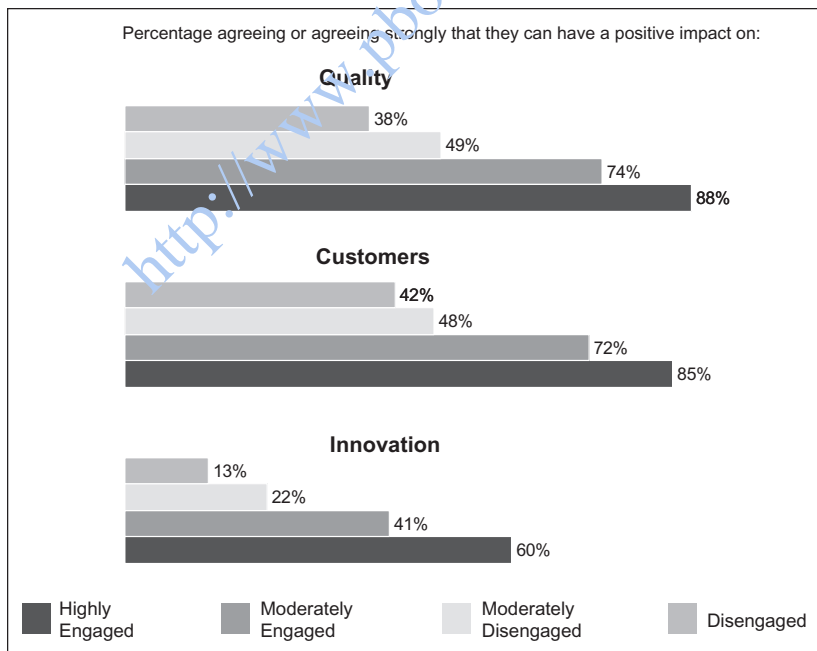
## The Definition, and the Power, of Engagement

The degree to which managers matter depends, in part, on how effectively they contribute to employee engagement. We believe that, of all the attitudes and behaviors of employees in companies across the world, engagement best captures the energy and dedication that underlie human capital investment. We will refer to the power of engagement frequently throughout the book. Research performed by our colleagues at Towers Watson shows that engagement comprises the three distinct dimensions: rational, emotional, and motivational. The thinking (rational) component of engagement refers to how strongly employees understand and

support the goals and values of the organization for which they work. The feeling (emotional) component of engagement describes the affective attachment that individuals feel toward their organizations. The behavioral (motivational) element encompasses employees' willingness to engage voluntarily in discretionary efforts for the good of the company—that is, to invest more of their human capital than is required just to keep their jobs.<sup>30</sup>

When organizations succeed at generating engagement among their employees, those employees not only score high on the three engagement dimensions, but also channel their human capital investment into areas the company cares about. Figure 1.1 shows the relationship between

**Figure 1.1: The Engagement Gap—and What Happens When Companies Close It**



Source: *Closing the Engagement Gap: A Roadmap for Driving Superior Business Performance*, Towers Perrin, 2007.

engagement and employees' belief in their ability to contribute to quality, customer behavior, and innovation.

But how much does employee engagement really matter to firm performance? Our research says that it matters a lot. We confirmed this conclusion by following 40 global companies over a three-year period. At the beginning of the study, we separated the 40 companies into high-engagement and low-engagement categories according to their employee engagement scores. We found that, over a period of 36 months, companies with a highly engaged employee population turned in significantly better financial performance (a 5.75 percent difference in operating margins and a 3.44 percent difference in net profit margin) than did low-engagement workplaces. Those are the kinds of returns that accrue for organizations that have a competitive advantage.<sup>31</sup>

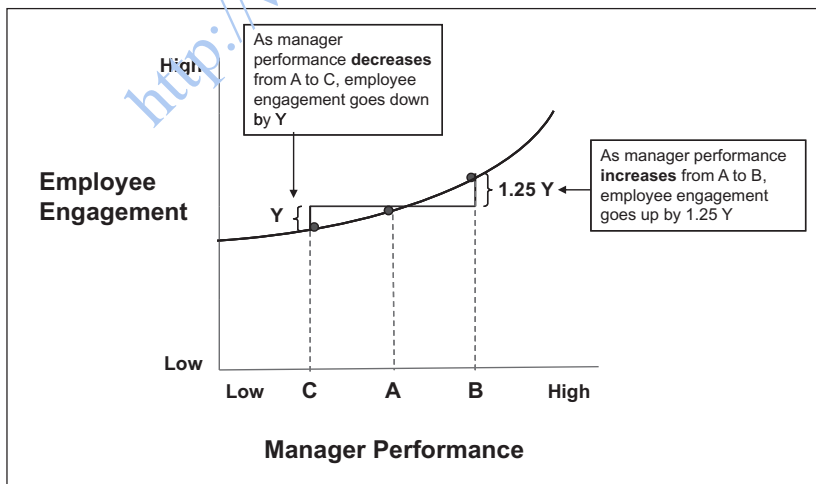
Using the worldwide respondent base from our 2010 global workforce study, we examined the drivers of employee engagement and employees' intent to stay with their current organizations. We found that the number one engagement driver is the perceived strength and performance of senior leaders. The behavior and effectiveness of direct supervisors falls well down the engagement driver list, at number 21. But a closer look shows that the direct manager's influence is woven throughout the list of employee engagement factors. For example, the number 3 engagement driver is career development opportunity. As we will see in Chapter Six, managers play a crucial role in employee learning and development. The fourth most important engagement driver is empowerment; we will talk about the manager's role in empowerment (and, more important, in fostering autonomy) when we discuss task execution and development in Chapters Five and Six. Establishing clear and energizing goals, an activity that clearly requires manager involvement, came in at number 5 on the engagement list.<sup>32</sup> Our conclusion: manager performance matters to employee engagement, often indirectly and through a number of interrelated channels.

When we've looked at the manager population on a broad, multi-organization scale, we've seen another facet of this story. Our analysis

indicates that improvements in manager performance are associated with disproportionately strong gains in employee engagement. The curve in Figure 1.2 tells the story.

The horizontal axis reflects performance on an index of items derived from the manager effectiveness model we will set out in Chapter Three. The vertical axis refers to employee engagement as we've defined it. When manager effectiveness declines from point A (the arithmetic mean performance score) to point C, employee engagement goes down by the amount shown as Y. Conversely, an equal increase in manager proficiency (from point A to point B) is correlated with a 25 percent *larger* gain in engagement. These findings tell us, in other words, that the improvement associated with good manager performance outweighs the loss linked with poor performance by a small but important margin. We believe that the relationship between manager performance and engagement reflects the multitude of factors influenced, directly and indirectly, by managers. Their actions alone do not drive engagement, but they

Figure 1.2: Manager Performance—More Upside Than Downside



Source: *The New Employment Deal: How Far, How Fast and How Enduring*, Towers Watson, 2010.

touch and influence many factors that push employee engagement up and down. This analysis also underscores just how much organizations have to gain from increasing the effectiveness of their supervisors. Curves like these, showing increasing returns to incremental improvements, rarely appear in business. Companies should therefore seize the opportunity to make improved manager effectiveness a cornerstone of their efforts to enhance employee engagement.

### **ENGAGEMENT, MANAGERS, AND FINANCIAL RESULTS—ONE COMPANY'S EXPERIENCE**

We got a close look at the relationship between manager performance and employee engagement when we did a research project for the AAA of Northern California, Nevada, and Utah. AAA is a service-oriented company that provides an array of automotive, insurance, travel, and financial offerings. We used employee engagement survey data and insurance industry financial data to assess the correlation between employee engagement and financial performance in the property casualty insurance industry in which AAA competes. The survey team analyzed the relationship between employee engagement and financial results for a population of sixteen insurance companies. We developed a statistical model using insurance industry engagement and financial data and applied it to AAA. The model indicated that a 5 percent increase in employee engagement at AAA is associated with \$47 million in financial gains in the insurance, membership, and travel businesses.

We also looked at the data to determine whether a relationship exists between manager effectiveness and employee engagement. Our team worked with AAA to identify fourteen engagement survey items and compile them into a manager performance index. The index contained such elements as "My manager works with me to

align my goals with the goals of the department,” or “My manager regularly coaches me and provides feedback on my performance,” and “My manager encourages me to come up with new and better ways of doing things.” We correlated the engagement and performance indices across nine major units within AAA, including the company overall. Our analysis showed that there is a 0.63 correlation between manager performance and engagement at AAA, where 1.0 would indicate a perfect linear relationship and zero would mean no relationship. Although there are too few data points for the correlation to have strong statistical significance, it nevertheless suggests a connection between the manager performance and employee engagement measures.

Reflecting on this analysis, Marie Andel, senior vice president of People & Performance for AAA, said, “We continue to have relatively high engagement scores. And we know you can’t focus on everything at once. In the six years we have been measuring engagement, we have had positive results in identifying an area of focus and applying actions, and we have seen the benefit in the scores. An organization focus on diversity and inclusion, the role of supervisors, and brand pride are all areas where we have made a commitment and seen the results. We have focused a good deal of attention on our supervisor group—reinforcing their role in performance management discussions, providing organizational context regarding strategy, having better career development discussions—and the result has been very positive. The formula almost seems too simple—select an area of focus, commit to addressing it, be explicit about why you are making the changes, and the results follow.”<sup>33</sup>

Throughout our discussion, we will refer to employee engagement as a powerful force in energizing successful business strategy. And we won’t hesitate to suggest that manager performance energizes employee engagement through an array of important factors.

*(Continued)*

It's true, of course, that managers don't work alone in their quest to increase engagement and build human capital. Our analysis shows that organization-wide elements like executive performance, company image, and corporate values are also important engagement drivers. Nevertheless, efforts to improve employee engagement must go beyond enterprise programs. Theresa Welbourne, a professor at the University of Michigan and an expert in executive and manager behavior, puts it this way: "Engagement cannot be a corporate initiative.... Corporate initiatives live out their life and then go away. The people who deliver the corporate initiatives have to make engagement happen, and those people **must be your managers**"<sup>34</sup> (emphasis added).

## SUMMARY: THE MEANING OF THE MANAGER

Management and leadership have been with us since humans invented work. For most of the last two decades, however, the manager position has been under direct assault. It's become a ragged conglomeration of pieces and parts, designed to do too many things and engineered to do few of them well. People both higher and lower on the organizational hierarchy question its value, resent the power it confers, and criticize the competence of the people who do it. We see evidence in complaints about ubiquitous micromanagement, and in the prevalence of Web sites with bad boss stories, jokes, quotes, and tips for handling your abusive, ignorant, or just plain incompetent manager. Browse Amazon.com or your corner bookstore and you can pick up titles like *Brutal Bosses and Their Prey* and *Does Someone at Work Treat You Badly?*

Differentiating leadership from management, we believe, helps clarify some of the confusion that surrounds the manager role. This isn't to say that the two kinds of activities don't often blend, however. A manager who engages the people in a unit in devising a new work process

could be said to be practicing both leadership (by involving employees) and management (by focusing on a process). But the blending doesn't mean it's not important to keep the elements separate in our minds. A chef mixes eggs and milk to make a soufflé, but that doesn't mean that eggs and milk are the same thing (at least not to the chicken and the cow). Keeping the ingredients separate allows focused development of the different management and leadership elements (that is, improve the soufflé by working with the chicken to upgrade the eggs and separately with the cow to perfect the milk).

So, do managers matter? We answer the question with an unambiguous "yes." As we expand the scope of managerial meaning beyond employee engagement to encompass competitive advantage for an organization, we will argue for the adoption of a specific model of managerial performance. Using company examples and research data, we will describe the components of the model and recommend ways of constructing the manager role to engineer it for success. The second part of the book will expand on each element of the performance model. We will end by suggesting how an organization can build and support a population of supervisors and managers who contribute to competitive success and enterprise prosperity.